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18 Feb. 1946

EUROPE

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TREA
arrangement
letter dtd
4/11/08.

1. CZECHOSLOVAKIA: Borders closed to Americans after raid--
The Czech Government has closed its borders to Americans and is holding a US Captain and two NCO's in connection with the crossing of the frontier by a small American force on 11 February. Czech officials charge that an underground dump was dynamited. They plan to hold the men until the materiel they claim has been removed (reportedly radar) is returned and a US explanation is given. The US Ambassador believes the Czech Government has evidence the raid was authorized at a high level.
2. HUNGARY: Financial deterioration and Soviet penetration--
Schoenfeld reports Hungarian inflation now mounting at a runaway pace. During the past week the American dollar increased from 800,000 to over 1,800,000 pengoes, and prices more than doubled, with currency in circulation now over two trillion pengoes. Schoenfeld predicts imminent loss of all currency value. Meanwhile Soviet penetration proceeds; the Hungarian Economic Council has decided to transfer to the USSR all bauxite shares claimed by the Soviets to have been German-owned. These shares control 35 percent of Hungary's bauxite resources.
3. HUNGARY: Air and shipping privileges--Legation Budapest learns that Hungary in negotiations with the USSR has insisted that UK, US and Netherlands also be permitted use of Hungarian airfields and that vessels of any nation have access to Hungary's Danubian ports.
4. SPAIN: Serious food shortage--Despite complete silence on the part of the local press, Embassy Madrid reports that the food shortage is critical and that Spain must import 800,000 tons of cereals during the next six months to maintain a minimum daily diet of 1400 calories. The food scarcity, coupled with increasing prices, is contributing heavily to general political instability, and there is little likelihood of immediate improvement in view of

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Spain's inability to pay for needed imports.

5. **SPAIN: US urged to delay statement of policy**--In a detailed analysis of the forces within Spain working toward a change in the Government, Embassy Madrid advises against US public support of any new regime. Because Leftist and Rightist forces are so equally matched, Ambassador Butterworth feels that no interim regime could meet US long-range objectives for orderly, democratic government.

FAR EAST

6. **CHINA: New exchange and trade plans**--The US Treasury representative in Chungking has transmitted the proposed new Chinese exchange and trade regulations as drafted by Arthur Young and two officials of the Bank of China. These proposals have received approval in substance by Chiang and Soong and are now being studied by the Ministry of Finance.

The drafters have recommended that China should (a) aim at effecting major financial and economic readjustments by the time sterling is restored to free convertibility, (b) establish flexible exchange and trade controls and provide adequate machinery to regulate exchange and imports, (c) seek as rapidly as possible a sound, stable and free currency system consonant with Bretton Woods, (d) remove trade barriers, (e) allocate five hundred million US dollars for future currency reform and set aside an exchange fund for 148 operations, and (f) apply no penalty measures to blocked assets abroad, use of which should be directed into channels of advantage to China.

The proposals provide for the regulation of foreign exchange transactions and disposal of blocked property by the Central Bank which would designate other banks as well as

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dealers to deal in foreign exchange and foreign notes. Official exchange rates would be abolished and the public would be permitted to buy and sell foreign exchange only through the appointed banks. Individual foreign currency accounts would be restricted and withdrawals made only for approved purposes. Penalties for violation of regulations include fines of up to one-half the amount of the illegal transaction and the debarring of banks or individuals from further foreign exchange transactions.

With respect to foreign trade policy and temporary foreign trade regulations, the proposed regulations would permit unrestricted trade except for a few less essential imports subject to customs license control and a brief prohibited list of both exports and imports. A temporary import program committee would be set up under the Supreme Economic Council.

7. KOREA: Consultants to Korean Joint Commission--SWNCC has recommended that the US and USSR appoint non-extremist Koreans to the Korean Joint Commission. General Hodge has reported that the group chosen in the US zone will include leaders of all major parties except the Communists. Extreme right wing leaders, he declares, must be included because their personal popularity is such that even Communists include them in any "slate".
8. N.E.I.: Political situation confused--The US Consul General in Batavia reports that Clark Kerr and van Mook appear optimistic and that Sjahrir has accepted the Dutch proposals as a "basis of discussion". Sjahrir, however, has privately said that the proposals contain conditions which are impossible, and that if he agreed to them, he would be immediately repudiated by the Indonesians. Such pessimism is possibly calculated to encourage US pressure on the Dutch.

THE AMERICAS

9. ARGENTINA: Peron reported to have evidence--The US Charge in Buenos Aires has heard that Peron has documentary and recorded evidence to substantiate certain of his charges against

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Braden and Lang.

10. ARGENTINA: Deportation of Axis agents--Charge Buenos Aires reports that a number of Axis agents were deported on 16 February and action is being taken against others. Argentina's compliance is better than was anticipated.
11. BRAZIL: Blue Book--The Brazilian Foreign Minister has told Ambassador Berle that Brazil wishes to follow the US lead in the Argentine situation, and would like to know how it can help.

Embassy Madrid reports that Brazil's Ambassador has told the Spanish Foreign Ministry that, since Eduardo Aunos (war-time Spanish Minister of Justice) was implicated by the Blue Book, Brazil could not now receive him as the new Ambassador from Spain.

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